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**FISCAL IMPACT STATEMENT**

**LS 7329**

**BILL NUMBER:** HB 1544

**NOTE PREPARED:** Jan 14, 2007

**BILL AMENDED:**

**SUBJECT:** School Textbook Funding.

**FIRST AUTHOR:** Rep. Goodin

**FIRST SPONSOR:**

**BILL STATUS:** As Introduced

**FUNDS AFFECTED:** ☒ GENERAL  
☒ DEDICATED  
☒ FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill has the following provisions:

*Textbook Definition-* The bill expands the definition of "textbook" to include certain materials used in student instruction.

*Lottery Transfer-* The bill transfers and distributes \$70,000,000 annually from the Administrative Trust Fund of the state lottery to the state Textbook Grant Fund.

*Textbook Fund-* The bill requires school corporations to establish a textbook fund and to use money from the fund to purchase textbooks.

*Textbook Grant-* The bill appropriates an annual state textbook grant to each school corporation equal to: (1) \$83; multiplied by (2) the average daily membership of the school corporation. The bill requires the deposit of grant funds in a school corporation's textbook fund.

*Textbook Rental Fees-* The bill limits a student textbook rental fee to: (1) 25% of the total purchase price of the textbooks minus; (2) \$83.

The bill makes conforming changes.

**Effective Date:** July 1, 2007.

**Explanation of State Expenditures:** *Summary:* The following table illustrates the estimated cost to the state

to cover the textbook grants provided by the bill.

| <b>Table A. State Cost To Provide Textbook Grants</b> |                        |                         |   |
|---|------------------------|-------------------------|---|
| <b>FY</b>   | <b>Textbook Grants</b> | <b>Lottery Transfer</b> | <b>Grants Not Covered By Lottery Transfer</b> |
| 2008  | \$83.4 M               | (\$70 M)                | <b>\$13.4 M</b>                               |
| 2009  | \$84.0 M               | (\$70 M)                | <b>\$14.0 M</b>                               |
| 2010  | \$84.7 M               | (\$70 M)                | <b>\$14.7 M</b>                               |

*Lottery Transfer-* The bill would transfer \$17.5 M in January, April, July, and October of every year (\$70 M annually) from the state lottery Administrative Trust Fund to the state Textbook Grant Fund (TGF). The transfers would begin in July 2007. The quarterly transfer to the TGF would be made subsequent to transfers required under current statute to the Teachers' Retirement Fund and the Pension Relief Fund. The transfers would not cover the entire cost of the grants as shown above. The state would require another source of funding for uncovered grant amounts of \$13.4 in FY 2008, \$14.0 M in FY 2009, and \$14.7 M in FY 2010.

The proposed transfer of lottery funds would have a secondary impact by creating a shift of \$70 M annually in Riverboat Wagering Tax revenue from the Property Tax Replacement Fund (PTRF) to the Build Indiana Fund (BIF). This would occur as the reduction of surplus lottery revenue distributed to BIF would be replaced (under the current funding formula for BIF) with Riverboat Wagering Tax revenue. The table below presents projected distributions of surplus Lottery and Gaming revenue in FY 2007 given the lottery transfer proposed in the bill.

*Background: Resources Available to BIF* - The Build Indiana Fund receives funds from two sources: (1) surplus lottery revenue and (2) revenues from gaming taxes and pari-mutuel taxes. Under current statute, surplus lottery revenue in the Lottery Commission's Administrative Trust Fund is first transferred to the Teachers' Retirement Fund (TRF) and the Pension Relief Fund (PRF). Once these transfers are made, the remaining surplus Lottery revenue is distributed to BIF.

Current statute also requires distribution of revenue from the Riverboat Wagering Tax, the Pari-mutuel Wagering Tax, the Pari-mutuel Satellite Facility Tax, the Charity Gaming Excise Tax, and the Charity Gaming License Fee to BIF. The total annual distribution to BIF from lottery, gaming, and pari-mutuel sources is effectively capped at \$250 M. This is because the annual distribution of Riverboat Wagering Tax revenue is limited to an amount equal to \$250 M minus the sum of the surplus lottery revenue and revenue from other gaming and pari-mutuel taxes distributed to BIF during that fiscal year. The required amount of Riverboat Wagering Tax is transferred to BIF from the PTRF at the end of the fiscal year.

*Distributions from BIF* - Under current statute, \$236.2 M annually must be transferred from BIF to the Motor Vehicle Excise Tax Replacement Account (MVETRA) within the state General Fund. Money remaining in BIF after the MVETRA transfer is available for state and local capital projects. It is estimated that \$33.4 M could potentially be available for state and local capital projects in FY 2007, assuming surplus lottery revenue is equal to the five-year average performance from FY 2002 to FY 2006. The table below contains actual BIF revenue and spending totals for FY 2004 to FY 2006, with a projection for FY 2007.

| <b>Table B. Surplus Lottery and Gaming Revenue &amp; Distributions (Millions)*</b>  |                             |                             |                             |                                |
|---|-----------------------------|-----------------------------|-----------------------------|--------------------------------|
| <b>Revenues &amp; Distributions</b>   | <b>FY 2004<br/>(Actual)</b> | <b>FY 2005<br/>(Actual)</b> | <b>FY 2006<br/>(Actual)</b> | <b>FY 2007<br/>(Projected)</b> |
| Beginning Balance in BIF**  | (0.9)                       | 6.3                         | 10.5                        | 19.6                           |
| Surplus Lottery Revenue in Adm.<br>Trust Fund   | 198.5                       | 189.7                       | 209.9                       | 187.0                          |
| TRF Transfer  | (30.0)                      | (30.0)                      | (30.0)                      | (30.0)                         |
| PRF Transfer  | (30.0)                      | (30.0)                      | (30.0)                      | (30.0)                         |
| Surplus Lottery Revenue to BIF  | 138.5                       | 129.7                       | 149.9                       | 127.0                          |
| Surplus Gaming Revenue to BIF   | 111.4                       | 120.2                       | 100.1                       | 123.0                          |
| Interest  | 0.0                         | 0.0                         | 0.0                         | 0.0                            |
| Transfers to BIF^   | 0.0                         | 0.2                         | 0.0                         | 0.0                            |
| Total Resources in BIF^^  | 249.1                       | 256.5                       | 260.5                       | 269.6                          |
| MVETRA Transfer   | (236.2)                     | (236.2)                     | (236.2)                     | (236.2)                        |
| Total Transfers   | (236.2)                     | (236.2)                     | (236.2)                     | (236.2)                        |
| Amount Available for State &<br>Local Capital Projects  | 12.9                        | 20.3                        | 24.3                        | 33.4                           |
| Amount Allotted to State & Local<br>Capital Projects*^  | 6.6                         | 9.8                         | 4.8                         |                                |
| *Updated 10/2/06. FY 2007 projected lottery surplus is based on the five-year average from FY 2002 to FY 2006.<br>**FY 2006 amounts available and allotted for capital projects do not sum to the FY 2007 beginning balance due to rounding.<br>^FY 2005 amount from loan repayments.<br>^^FY 2004 and FY 2005 individual resources amounts do not sum to the total resources amount due to rounding.<br>*^Actual totals for FY 2004-FY 2006. |                             |                             |                             |                                |

*Textbook Grant-* School corporations would be eligible for a state grant per ADM of \$83. The projected costs of these grants are approximately \$83.4 M for FY 2008, \$84.0 M in FY 2009, and \$84.7 M in FY 2010. The transfer from the state lottery would amount to \$70 M per state fiscal year. The lottery transfer would not cover the entire amount of the textbook grants. Ultimately, the source of funds and resources required to provide the grants not covered by the lottery transfers would depend upon legislative and administrative actions.

*Textbook Rental Program-* The bill would reduce rental fees charged by schools for textbooks. Families with children qualifying for free and reduced lunch would likely require less reimbursement from state funds with lower rental fees.

*Background-* P.L. 246-2005 appropriated \$19.9 M for FY 2007 to pay for a portion of the costs of textbook rental fees that are waived by school corporations for children of families who qualify for the federal Free and Reduced Lunch Program.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:** See *Explanation of Local Revenues*.

**Explanation of Local Revenues:** *Textbook Grant-* School corporations currently pay for textbooks using textbook rental fees, proceeds from the sale of used textbooks, state reimbursement of textbooks for children who qualify for the federal Free and Reduced Lunch Program, and financial assistance from township trustees (Poor Relief). As proposed by this bill, school corporations would be eligible to use the state grant of \$83 per ADM in addition to the above sources. In FY 2006, schools collected revenue of \$62.6 M in textbook rental fees from students. Money in the school textbook fund would not revert to the school general fund at the end of a school year.

**State Agencies Affected:** State Lottery Commission; Department of Education; Treasurer of State.

**Local Agencies Affected:** Schools.

**Information Sources:** Auditor of State Revenue Trial Balance; Bob Lain, State Budget Agency, (317) 232-3471; Department of Education ORACLE Data Tables.

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